

THE WATER TROUGH

Cows in Control Newsletter

February 2016

Are the lows behind us?...

Feeder futures dropped 66% from the highs made in 2014 to the lows made at Christmas. We have since had a rally and a soft sideways pattern on our prices. The Canadian dollar has rallied from 68 to 73 cents in short order which took a while to set back our Canadian feeders, but has finally returned us to historic basis levels. This market is toying with breaking out higher but has some work to do. A lot of watch and see this month.

Take note of our revised services:

- 1) Developing an annual marketing strategy for your cattle
- 2) Working with you to protect the value of your herd
- 3) Analysis on retained ownership and forward selling
- 4) Making sense of the markets

Give me a call for a free consultation

“In a sideways market, you trade the range. Sell at the high end, buy at the low end. The down trend has stopped for now thankfully at pretty good levels. Look for choppy sideways movement here”

- Ryan Copithorne



“Winter Sunset”

Roland Gissing

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The Canadian dollar's downward slide...

“Loonie” prices...

The Canadian dollar, as can be seen at left, is in a strong down trend. The market bottomed at 68 cents early this year and bounced quickly, as high as 73 cents.

I marvel at the lag effect on our Canadian feeder prices to the price of the Loonie. We were trading at zero basis on our feeders for most of the month, meaning there was no discount for Canadian feeders relative to US feeders when converted to the same currency. This was rare but unsustainable. The Canadian feeder market has since dropped in price. We have now finally returned to normal historic basis levels, meaning our feeders are once again relatively affordable to purchase.

When oil started to really capitulate in prices, we got into an accelerated downward channel as indicated by the blue line at left. However, the yellow trend lines held at 68 cents which was a positive and we bounced back. It is wrestling with the upper blue trend line right now but may push through which would free us to a move to 75 cents.

Longer term charts demonstrate the area around 70 cents to be quite solid support. We may sink back to that range one more time before taking another run for the top end of both of these downward trading channels we are in.

I would be patient on dollar hedges at this point. Those of you who hedged the dollar last month covered the latest drop in feeder prices.

There are several ways to hedge currency and Cows in Control is prepared to assist you with this.

Remember, a one cent move in the Canadian dollar is roughly 5 cents on your calf prices. For example, a simple snap back rally from 72 cents to 77 cents could be 25 cents/lb off of your calf prices, or \$125/calf!

Signs in the sky



The Marketing Buzz (Feb 19)

Canner cows, heiferettes and bulls

Cull cows: \$85-114 Heiferettes: \$120-165

Cull Bulls: \$110-145

Breds (only a \$1000 spread in prices of breds, take your pick)

Bred cows: \$1700-2700 Bred heifers: \$1800-3025

Feeders

Steers: 450 wts \$2.87	Heifers: 450 wts \$2.45
550 wts \$2.61	550 wts \$2.29
650 wts \$2.36	650 wts \$2.10
750 wts \$2.14	750 wts \$1.96
850 wts. \$1.98	850 wts \$1.86

Slide 550-850: 21 cents Heifer:steer @ 750 lbs: -18 cents

Finished Cattle

\$1.75 cash

Feeder Basis: -16.7* Finished cattle Basis: -11

(*Note: basis has finally started to return to more historic normal levels)

Is that it?...

I have reprinted the feeder cattle chart (Exhibit 1) from the late '70's as a reminder of how after commodities drop, they will often trend sideways for quite a while until another catalyst comes in to shake the market once again.

The March feeder futures chart has just recently broken through its down trend line which was the overhead resistance for the past year and a bit.

We are officially in a sideways market somewhere between 165 and 142 on the feeder futures. Sorry to be so plain.

That range is around 20 cents or \$170. The key to profiting in this type of market looking forward is selling at the top of the range and buying at the bottom, over and over. Playing the churn.

Exhibit 3 demonstrates that we have simply corrected back to the long term up-trend line from 2009 and held which is good.

The blue line will give us an upward bias to our prices, but the yellow channel lines will be our likely trading range for now until violated.

A quick look at hedgable prices for your 550 lb steer calves this fall using various tools net of all hedge costs:

- WLPiP Calf: \$2.17/lb
- WLPiP Feeder: \$2.39/lb
- Options: \$2.48/lb*
- Feeder Futures: \$2.53/lb*
- Fwd Contract: \$2.50/lb* (Try it!)

**currency and basis risk to be considered with these strategies*

Exhibit 1: Feeder cattle 1977 to 1987

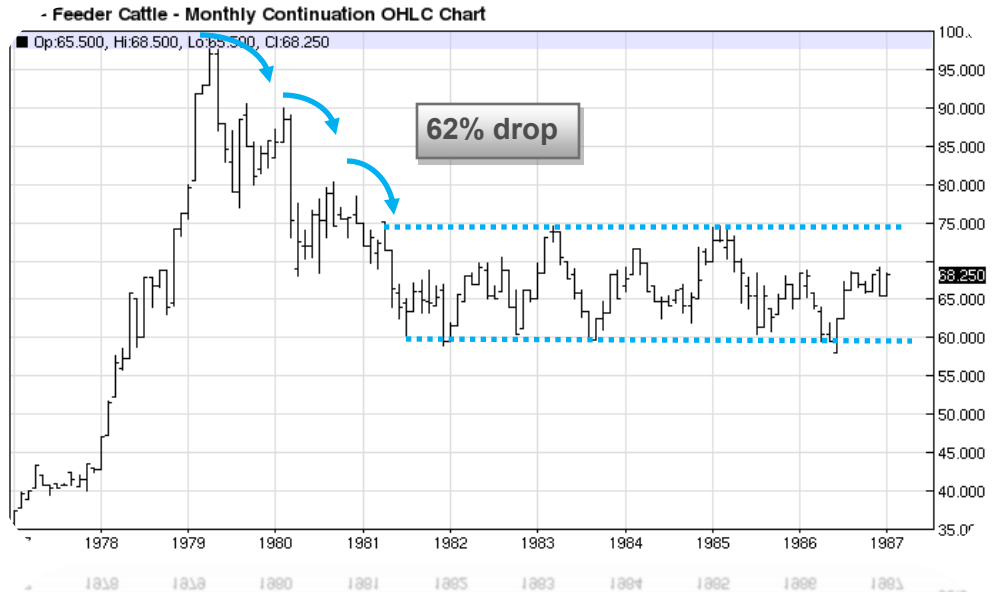


Exhibit 2: March Feeder Cattle Futures



Exhibit 3: Weekly Feeder Cattle Futures

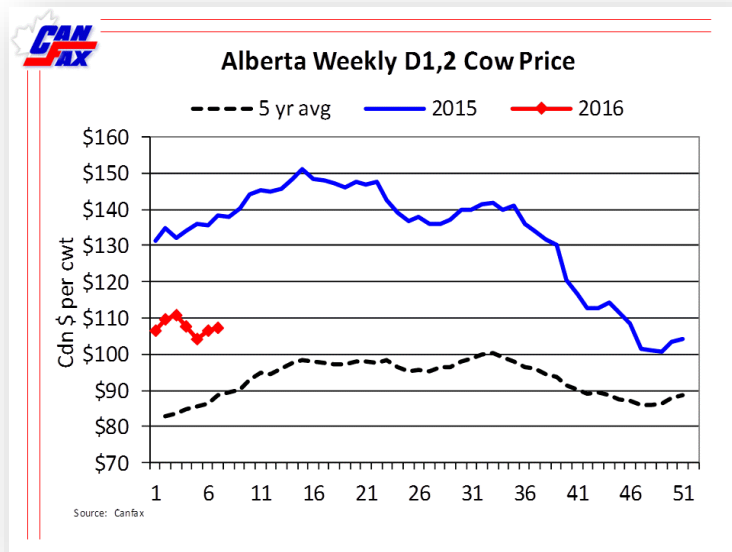


Cull Cows...

This chart courtesy of Canfax demonstrates the seasonality of cull cow prices. Our prices are well below last years, due to a large number of cows that were on feed over the year end, now being put through the system.

Data analysts claim there is herd building going on due to reduced cow slaughter last year. Did the reduced cow slaughter numbers become breeder cows, or did feedlots just fill up with cows that they held over year end because they were cheaper to buy than feeders last fall?

Feedlots are full of cows right now, but if good old seasonality comes into play, we should be headed to the \$1.20's in the next few weeks.



Contact Us

Give us a call for more information about our services and products

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"TO LOVE THE LORD YOUR GOD AND TO SERVE HIM WITH ALL YOUR HEART AND WITH ALL YOUR SOUL – THEN I WILL SEND RAIN ON YOUR LAND IN ITS SEASON, BOTH AUTUMN AND SPRING RAINS, SO THAT YOU MAY GATHER IN YOUR GRAIN, NEW WINE AND OLIVE OIL. I WILL PROVIDE GRASS IN THE FIELDS FOR YOUR CATTLE, AND YOU WILL EAT AND BE SATISFIED." - DEUT. 11:13

Cows in Control, serving the cow/calf producer

Thoughts on the industry

When I take a look at where we have fallen from in cattle prices, and where we are settling out at, I am encouraged as a cow calf producer. We are still able to hedge calf prices in at over \$1200 per calf, that's a pretty great shot, I think we can make that work. (Now if those danged forage prices would set back a bit!)

Good news is from the last chart the previous page, we are still holding an upward trend in our feeder cattle prices from the start of the big rise in 2009 until today. Let's hope it stays that way.

It looks to me like \$2400 bred heifers, similar or lower cow prices, \$2.50 calf prices and \$5000 bulls could be fair, stable price averages going forward, absent any major catalysts that would alter this market once more.

Lots of fear in the overall economy and world stock markets have everyone jittered about deflation and bank collapses. I just don't know, this is such an artificial economy it is hard to say what will happen. The good news is that commodities such as copper, gold, and other metals have rebounded as of late. This indicates that some inflation may be returning, or at the very least, reduction of deflation, which is a good start for us as commodity producers. Oil is bouncing along the \$30/ barrel mark and somewhat holding there. Cattle prices have stopped their descent. Maybe the commodity deflation winds are abating.

Beef demand is weakening, and we have a pile of pork out there so don't expect strong growth, but for now, we are sitting at pretty workable levels. Lock in what you can, and focus on your production here.